



## U.S.-China Economic and Security Review Commission

FOR IMMEDIATE RELEASE

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*The U.S.-China Economic and Security Review Commission was created by Congress to report on the national security implications of the bilateral trade and economic relationship between the United States and the People's Republic of China. For more information, visit [www.uscc.gov](http://www.uscc.gov).*

The U.S.-China Economic and Security Review Commission Releases Report:

**[An Analysis of State-owned Enterprises and State Capitalism in China](#)**

**Washington, D.C.** - Today the U.S.-China Economic and Security Review Commission released a new report, [“An Analysis of State-owned Enterprises and State Capitalism in China.”](#)

China's breathtaking economic growth, has often led observers to assume that the country's economic system has been transformed into a capitalist economy dominated by private enterprise. Although China's reliance on private enterprise and market-based incentives has been growing, and the CCP's treatment of private enterprises and entrepreneurs has been changing, it would be a mistake to minimize the current role of the State and the CCP in shaping economic outcomes in China and beyond. The Chinese government and state-owned enterprises (SOEs) remain potent economic forces. Indeed, some of China's SOEs are among the largest firms in China and the world. They are major investors in foreign countries. They have been involved in some of the largest initial public offerings in recent years and remain the controlling owners of many major firms listed on Chinese and foreign stock exchanges.

Previous reports and analyses by academics and policy experts have estimated that Chinese SOEs, and other state-affiliated enterprises, hold a lower share of China's non-agricultural GDP than that estimated in this report, which provides a comprehensive analysis of that country's control and influence over its economic enterprises. This report tracks [testimony heard by the Commission](#) that China's privatization reforms have, in some cases, reversed and that the state sector is strengthening.

The report concludes that:

- The share of GDP accounted for by the non-state sector, including foreign invested firms without ties to the government of China, is approximately 50 percent.

- SOEs and entities directly controlled by SOEs, accounted for more than 40 percent of China's non-agricultural GDP. If the contributions of indirectly controlled entities, urban collectives, and public Township and Village Enterprises (TVE) are considered, the share of GDP owned and controlled by the state is approximately 50 percent.
- Based on the current direction of economic policy making in China the state sector will continue to play an important role in China, even if its share of GDP shrinks further.
- China's SOEs are potentially formidable competitors because they benefit from a number of government preferences in China. Based on recent U.S. regulatory filings by SOE-owned entities, SOEs and their subsidiaries benefit from preferred access to bank capital, below-market interest rates on loans from state-owned banks, favorable tax treatment, policies that create a favorable competitive environment for SOEs relative to other firms, and large capital injections when needed. Further, Chinese SOEs also appear to dominate China's expanding government procurement market.
- When it joined the WTO in 2001, China promised that the government would not influence, directly or indirectly, the commercial decisions of SOEs. China does not appear to be keeping this commitment. The state very much does influence SOE commercial decisions and the most recent five-year guidance does not herald that this is changing. If anything, China is doubling down and giving SOEs a more prominent role in achieving the state's most important economic goals.
- For some U.S. firms whose participation in China's economy facilitates the government goals, China will continue to be a profitable market. For others, especially those in strategic and emerging industries that the government is targeting, the Chinese market may become far less hospitable.

This report was prepared for the Commission by Capital Trade, Incorporated. It can be found online at: [http://www.uscc.gov/researchpapers/2011/10\\_26\\_11\\_CapitalTradeSOEStudy.pdf](http://www.uscc.gov/researchpapers/2011/10_26_11_CapitalTradeSOEStudy.pdf)

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